

**REPORT OF THE AUDIT OF THE  
FLEMING COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
April 3, 2007 Through April 7, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FLEMING COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**April 3, 2007 Through April 7, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Fleming County Sheriff for the period April 3, 2007 through April 7, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,966,475 for the districts for 2007 taxes, retaining commissions of \$152,697 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,795,327 to the districts for 2007 Taxes. Taxes of \$15,273 are due to the districts from the Sheriff and refunds of \$712 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff Took A Higher Commission Than Allowed On Two Taxing Districts

**Deposits:**

The Sheriff's deposits as of April 7, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured     \$2,163



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Honorable Scotty Royse, Fleming County Sheriff

Members of the Fleming County Fiscal Court

Independent Auditor's Report

We have audited the Fleming County Sheriff's Settlement - 2007 Taxes for the period April 3, 2007 through April 7, 2008. This tax settlement is the responsibility of the Fleming County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fleming County Sheriff's taxes charged, credited, and paid for the period April 3, 2007 through April 7, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Honorable Scotty Royse, Fleming County Sheriff

Members of the Fleming County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff Took A Higher Commission Than Allowed On Two Taxing Districts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 19, 2008



FLEMING COUNTY  
SCOTTY ROYSE, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 3, 2007 Through April 7, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 693,671	\$ 781,847	\$ 1,466,737	\$ 518,164
Tangible Personal Property	61,359	78,658	132,698	91,211
Fire Protection	1,037			
Increases Through Exonerations	50	56	105	37
Franchise Taxes	56,271	69,243	120,837	
Limestone, Sand and Mineral Reserves	211	236	446	158
Penalties	6,707	7,583	14,179	5,359
Adjusted to Sheriff's Receipt	<u>110</u>	<u>(371)</u>	<u>(1,568)</u>	<u>(453)</u>
Gross Chargeable to Sheriff	<u>819,416</u>	<u>937,252</u>	<u>1,733,434</u>	<u>614,476</u>
<u>Credits</u>				
Exonerations	2,327	2,616	4,921	1,769
Discounts	10,956	12,461	23,169	8,885
Delinquents:				
Real Estate	13,986	15,822	29,538	10,435
Tangible Personal Property	<u>174</u>	<u>223</u>	<u>376</u>	<u>445</u>
Total Credits	<u>27,443</u>	<u>31,122</u>	<u>58,004</u>	<u>21,534</u>
Taxes Collected	791,973	906,130	1,675,430	592,942
Less: Commissions *	<u>33,946</u>	<u>37,975</u>	<u>55,289</u>	<u>25,487</u>
Taxes Due	758,027	868,155	1,620,141	567,455
Taxes Paid	757,647	866,776	1,603,835	567,069
Refunds (Current and Prior Year)	<u>768</u>	<u>836</u>	<u>1,626</u>	<u>660</u>
**				
Due Districts or (Refunds Due Sheriff)	<u>\$ (388)</u>	<u>\$ 543</u>	<u>\$ 14,680</u>	<u>\$ (274)</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY  
 SCOTTY ROYSE, SHERIFF  
 SHERIFF'S SETTLEMENT - 2007 TAXES  
 For The Period April 3, 2007 Through April 7, 2008  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,066,756
4% on	\$	214,289
3.30% on	\$	1,675,430

\*\* Special Taxing Districts:

Library District	\$	56
Health District		86
Extension District		(50)
Soil Conservation District		41
Ambulance District		<u>410</u>

Due Districts or		
(Refunds Due Sheriff)	\$	<u><u>543</u></u>

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENT

For The Period April 3, 2007 Through April 7, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Fleming County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENT  
APRIL 7, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 7, 2008, \$2,163 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized \$2,163

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2007 through April 7, 2008.

Note 4. Interest Income

The Fleming County Sheriff earned \$1,156 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Fleming County Sheriff collected \$26,102 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of September 19, 2008, the Sheriff owed \$1,135 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Fleming County Sheriff collected \$1,460 of advertising costs and \$730 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of September 19, 2008, the Sheriff owed \$1,460 in advertising costs to the county and \$730 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Honorable Scotty Royse, Fleming County Sheriff  
Members of the Fleming County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Fleming County Sheriff's Settlement - 2007 Taxes for the period April 3, 2007 through April 7, 2008, and have issued our report thereon dated September 19, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fleming County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fleming County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fleming County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fleming County Sheriff's Settlement – 2007 Taxes for the period April 3, 2007 through April 7, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Took A Higher Commission Than Allowed On Two Taxing Districts

The Fleming County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fleming County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 19, 2008



## COMMENTS AND RECOMMENDATIONS



FLEMING COUNTY  
SCOTTY ROYSE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 3, 2007 Through April 7, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over receipts and disbursements. Most employees of the Sheriff's office could collect tax receipts. In particular, a deputy Sheriff who is also the bookkeeper, collects tax receipts, prepares the daily deposit, reconciles the daily receipts to the daily tax collection report, and posts to the receipts ledger. The same individual also prepares monthly reports, tax distribution checks, and bank reconciliations. The Sheriff signs all monthly reports and tax distribution checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. We recommend that the Sheriff implement the following suggested procedures to help strengthen internal controls:

- The Sheriff could complete the bank reconciliation periodically and document so by initialing the bank reconciliation.
- The Sheriff could re-compute the amounts being distributed to the taxing districts monthly and document so by initialing the report for each taxing district.
- The Sheriff could review the daily deposit by comparing it to the daily tax collection report and document so by initialing the deposit ticket.

*Sheriff's Response: I will follow the recommendations made.*

STATE LAWS AND REGULATIONS:

The Sheriff Took A Higher Commission Than Allowed On Two Taxing Districts

The Sheriff took a higher commission than allowed from the School and Ambulance taxing districts for the 2007 tax year. KRS 134.140(3)(b) states that the Sheriff shall receive a commission not to exceed the rate of four percent (4%) of the tax collections for the school. The school sets the commission rate each year, and it was 3.30% for the 2007 tax year. However, the Sheriff took a commission of 4.25% on the school's tax collections. Also, the Sheriff took a higher commission rate on tax collections from the Ambulance taxing district of 4.25%. KRS 108.100(4)(d) states that the Sheriff shall be entitled to a fee of four percent (4%) commissions on tax collections from the Ambulance taxing district. Between the two districts, the Sheriff overpaid commissions to his fee account in the amount of \$15,115. The underpayments to each district have been accounted for in the financial statement computations. Therefore, by paying the amounts due per the financial statement, the Sheriff will have resolved this commission issue. We recommend the Sheriff take the appropriate actions to ensure that the correct commission rate is used on all taxing districts.

*Sheriff's Response: Due to a mistake on the software program, commissions were not calculated properly. These monies were turned over to the Fiscal Court as 2007 Excess Fees. A new tax program has been purchased for the 2008 tax year.*

